

UNITED STATES GOVERNMENT PRINTING OFFICE

OFFICE OF
PUBLIC PRINTER

June 18, 1958

Honorable Allen W. Dulles, Director
Central Intelligence Agency
Washington 25, D. C.

Dear Mr. Director:

During a period of approximately 18 months, sustained study has been going on as a forerunner to adopting the "firm-estimate" concept to encompass all work to which it can be realistically adapted. This concept is fundamentally based upon the premise that average production costs are altogether equitable for use in billing. Unfortunately, however, this technique cannot be universally applied due to a lack of means for measuring the product in advance in some circumstances--thus the necessity for limiting this practice, including delay of firm estimates under conditions as indicated below. At the same time, it is believed that the adoption of this practice to the extent possible will tend to result in greater uniformity in pricing and provide necessary information to you at an earlier date.

Initial consideration of this matter was undertaken more than two years ago. Shortly thereafter, I established a Committee of officials of this Office to study the whole problem and subsequently, by arrangement with the Comptroller General, a representative of his office was made a member of the Committee. Among other things, the Committee consulted with representatives of several of the Agencies in the course of its deliberations.

As further evidence of the fact that the problems of all parties were taken into account, I would like to illustrate some of the developments that led to this action; particularly as regards the interest and assistance given by the General Accounting Office.

In the beginning, considerable emphasis was provided by the General Accounting Office, which in one of its audit reports had this to say:

"In our opinion, the present cost system should be refined to the point where billings can be made on the basis of sound standard costs, i.e., without additional computation as is now the practice."

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At about the same time that the above cited audit recommendation was developed, a decision was requested from the Comptroller General in regard to the use of pre-determined prices for billing purposes. In response, a decision was issued on March 13, 1956 (B-126562), which stated that the use of an estimated cost would be acceptable provided:

"... (1) that the estimated price is based on and checked by a sound system of standard costs and (2) it is administratively determined that such estimated price represents the approximate actual cost of services rendered."

This decision was then concluded as follows:

"It is our view that such an estimate would satisfy the actual cost requirements of the law. Also, it is our opinion that the adoption of this method of billing would greatly simplify the billing procedures of your office and result in worthwhile economies."

Upon completion of a report by the above mentioned Committee, I approved the recommendations contained therein and then referred it to the Comptroller General for consideration in the light of the previous audit recommendation and as to consistency with the decision of March 13, 1956. In a communication dated April 4, 1958 (B-114829), an affirmative response was given as evidenced by the following quotation:

"We believe that the adoption of the recommendations contained in the report will go a long way toward simplifying the costing and billing work; the primary objective underlying the recommendation contained in our audit report for fiscal years 1954 and 1955. The determination of advance cost estimates in the manner outlined in the report is consistent with our decision of March 13, 1956 (B-126562)."

The following is in further explanation of the changes to the extent that they may be of interest to the several agencies:

(1) Cost estimates, to the extent of their coverage and unless otherwise qualified, will be adhered to in the later compilation of bills for the services. This practice will be commenced on or about July 1, 1958; however, the conversion will necessarily be made gradually.

(2) Under certain conditions estimates will be delayed; when reasonably sufficient or complete information, necessary to visualize the end product, is lacking; for example, in many instances estimates for new book work will be transmitted after receipt of approved page proofs.

(3) Cost estimates may not be furnished in instances where appropriate price information may already be available to you; e.g., blank paper orders, postal cards, and Patents work.

(4) As a general practice cost estimates will not be supplied in circumstances where they would not qualify as an equitable basis for billing. Among selected categories for which estimates, for one reason or another, will usually not be furnished include: classified and "rush" printing, and agency orders performed on Congressional jackets.

It is hoped that the action being taken will prove beneficial to you as well as to the Government Printing Office and may provide a good foundation for further improvements in the future.

Very truly yours,

RAYMOND BLATTENBERGER
Public Printer